

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 LAB-04 TRSE-00 FRB-03 CIAE-00
COME-00 EB-07 INR-07 NSAE-00 SIL-01 L-03 AID-05
USIA-06 XMB-02 OPIC-03 SP-02 EPG-02 OMB-01 SS-15
/087 W

-----272318Z 095633 /75

R 271855Z MAY 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 4497
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY THE HAGUE
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
USMISSION NATO
USNMR SHAPE
USMISSION GENEVA
AMCONSUL BELFAST
AMCONSUL EDINBURGH

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USEEC ALSO FOR EMBASSY
USOECN ALSO FOR EMBASSY

PASS LABOR, TREASURY, FRB

E.O. 11652: N/A
TAGS: ELAB, UK, PINT
SUBJECT: THE NEXT PAY ROUND - CURRENT STATE OF PLAY

SUMMARY. SECRETARY OF STATE FOR EMPLOYMENT ALBERT
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BOOTH, WHILE EXPRESSING CONFIDENCE THAT THE GOVERNMENT
WILL OBTAIN A THIRD ROUND OF PAY RESTRAINT FROM THE
UNIONS, TOLD US THAT THE GOVERNMENT WILL SOLDIER ON
(AVOIDING AN ELECTION IF AT ALL POSSIBLE) EVEN IF NO
AGREEMENT IS REACHED. IN A SEPARATE CONVERSATION, MOSS
EVANS, GENERAL SECRETARY-ELECT OF THE TRANSPORT WORKERS,
PREDICTED THAT THE BEST THE GOVERNMENT WILL OBTAIN IS

AN "UNDERSTANDING" WITH THE UNIONS TO RESTRAIN WAGES, RATHER THAN AN "AGREEMENT." THE LATEST COUNT OF UNIONS FOR AND AGAINST FURTHER WAGE RESTRAINT, BASED SOLELY ON TRADE UNION CONFERENCES ALREADY HELD' SHOWS THAT THERE IS A TWO TO ONE MAJORITY IN FAVOR OF A RETURN TO FREE COLLECTIVE BARGAINING. THE CONFERENCE SEASON IS NOT YET OVER AND SOME OF THE ANTI-THIRD ROUND RESOLUTIONS COULD BE TURNED AROUND LATER, BUT THE GOVERNMENT APPEARS TO BE PREPARING FOR A POSSIBLE "WORST-CASE" SITUATION. END SUMMARY.

1. THE NEXT ROUND: BOOTH' WHO MADE HIS COMMENTS DURING A MEETING WITH LONDON-BASED LABOR ATTACHES ON MAY 25, SAID THE GOVERNMENT IS COGNIZANT OF THE DIFFICULTIES IN GETTING THE UNIONS TO AGREE TO A THIRD ROUND, AND HE ACKNOWLEDGED THAT A NUMBER OF TRADE UNION ANNUAL CONFERENCES HAVE CALLED FOR AN END TO WAGE RESTRAINT. (THE TIDE IS RUNNING TWO TO ONE AGAINST FURTHER RESTRAINT, JUDGING FROM RESOLUTIONS THUS FAR PASSED AT UNION CONFERENCES.) HOWEVER, THE CONFERENCE SEASON IS NOT YET OVER AND ONE OF THE MOST IMPORTANT MEETINGS, THE TRANSPORT AND GENERAL WORKERS CONFERENCE, WILL TAKE PLACE IN EARLY JULY. SOME OF THE CONFERENCES WHICH VOTED FOR A RETURN TO FREE COLLECTIVE BARGAINING HAVE, LIKE THE ENGINEERS' UNION, KEPT THE DOOR OPEN FOR A REVIEW. OTHERS, LIKE THE PUBLIC WORKERS, HAVE PASSED RESOLUTIONS WHICH ARE OPEN TO MORE THAN ONE INTERPRETATION.

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2. BOOTH ALSO INDICATED THAT THE GOVERNMENT IS MORE OR LESS RESIGNED TO THE FACT THAT IT WILL NOT OBTAIN AN AGREEMENT UNTIL THE ANNUAL CONGRESS OF THE/TUC IN EARLY SEPTEMBER, ALTHOUGH IT PREVIOUSLY HAD HOPES OF DOING SO BEFORE THE CURRENT PAY ROUND EXPIRES ON JULY 31. HE ACCEPTED THE FACT THAT UNION DEMANDS FOR WAGE FLEXIBILITY AFTER TWO YEARS OF RIGID PAY RESTRAINT ARE LIKELY TO MEAN A LOOSE RATHER THAN A TIGHT PAY POLICY AS SOME IN THE CABINET HAD WANTED (INCLUDING CHANCELLOR OF THE EXCHEQUER DENIS HEALY). BUT, HE EMPHASIZED, A LOOSE POLICY IS "BETTER THAN NOTHING AT ALL." AT THE VERY LEAST, THE SECRETARY OF STATE FOR EMPLOYMENT IS CONVINCED, THE UNIONS WILL STICK TO THE "12-MONTH RULE" CURRENTLY FOLLOWED WITHIN THE SECOND PAY ROUND WHICH REQUIRES A UNION TO WAIT 12 MONTHS BEFORE ITS NEXT AGREEMENT IS REACHED.

3. BOOTH EXPRESSED CONFIDENCE, FURTHERMORE, THAT EVEN IF NO AGREEMENT IS REACHED WITH THE UNIONS ON A THIRD

ROUND, THEY STILL WILL NOT ENGAGE IN A "FREE-FOR-ALL"
SUCH AS MARKED THE 1974-5 PERIOD WHEN WAGE INCREASES
SOARED TO ABOUT 30 PERCENT IN MANY CASES AND INFLATION
RAGED. HE ADDED THAT IF HIS PREDICTION PROVED INCORRECT,
AND THERE WERE INDEED A "FREE-FOR-ALL", THE GOVERNMENT
WOULD USE ITS POWER OVER PUBLIC SECTOR BARGAINING AND

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TAKE OTHER FISCAL OR BUDGETARY MEASURES TO KEEP THE
ECONOMY ON AN EVEN KEEL.

4. BOOTH ALSO PREDICTED THAT EVEN IF NO AGREEMENT IS
REACHED, THE GOVERNMENT WOULD SOLDIER ON, THAT IS CON-

TINUE TO AVOID AN ELECTION IF AT ALL POSSIBLE UNTIL NEAR
THE END OF ITS TERM. HE REASONED THAT IF IT WERE TO GO
TO THE POLLS AFTER FAILING TO WIN AN AGREEMENT, THE
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GOVERNMENT WOULD BE MUCH MORE LIKELY TO LOSE THAN IF IT
WAITED UNTIL ITS HOPES FOR AN IMPROVEMENT IN THE ECONOMY
MATERIALIZED. BOOTH DID NOT EXPECT ANY SUBSTANTIAL DE-
CLINE IN THE ANNUAL RATE OF INFLATION, NOW RUNNING AT
17 1/2 PERCENT, UNTIL THE SECOND QUARTER OF NEXT YEAR
-- NOR DID HE SEE MUCH PROSPECT FOR A SIGNIFICANT
DOWNTURN IN THE UNEMPLOYMENT RATE FOR SOME TIME TO COME
DESPITE THE BETTER-THAN-EXPECTED UNEMPLOYMENT STATISTICS
ANNOUNCED THIS MONTH.

5. WE ALSO TALKED SEPARATELY LAST NIGHT (MAY 26) ABOUT
WAGES WITH MOSS EVANS, GENERAL SECRETARY-ELECT OF
BRITAIN'S LARGEST AND MOST INFLUENTIAL UNION, THE
TRANSPORT AND GENERAL WORKERS UNION (TGWU), WHO DOESN'T
TAKE OVER OFFICIALLY UNTIL MARCH 1978 WHEN JACK JONES
RETIRES. HIS UNION, WHOSE CONFERENCE IS IN EARLY JULY,
WILL BE PIVOTAL ON THE WAGE ROUND ISSUE. EVANS BELIEVES
THERE WILL NOT BE AN "AGREEMENT" BUT RATHER AN "UNDER-
STANDING" BETWEEN THE GOVERNMENT AND THE UNIONS THIS
YEAR. SUCH AN "UNDERSTANDING," HE SAID, IS VERY LIKELY
TO INCLUDE A PLEDGE NOT TO BREAK THE VITAL "12-MONTH
RULE," AND WOULD ALSO GEAR WAGES TO INCREASES IN THE
COST OF LIVING. HE DID NOT SPELL OUT THE LATTER POINT
VERY CLEARLY EXCEPT TO SAY THAT IT COULD REACH 10-13
PERCENT. WHO THEN, WE ASKED, WOULD POLICE SUCH A
LOOSE ARRANGEMENT? MOSS REPLIED THAT THE TUC WOULD
OVERSEE OR "VET" WAGE AGREEMENTS TO INSURE THAT THEY
DID NOT EXCEED THE GUIDELINES SET OUT UNDER THE "UNDER-
STANDING."

6. COMMENT: IT IS TOO EARLY TO PREDICT WITH ANY
SOLIDITY THE SHAPE OF ANY ULTIMATE TUC-GOVERNMENT
"AGREEMENT" OR "UNDERSTANDING." BUT BOOTH'S REMARKS --
COMING AS THEY DO FROM A MEMBER OF THE CABINET --
COUPLED WITH EVANS' PREDICTIONS, HAVE A SLIGHTLY OMINOUS
RING, AT LEAST FOR THOSE WHO RECALL THE 1974-5 PERIOD
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IMMEDIATELY AFTER THE LABOR GOVERNMENT RETURNED TO
POWER, WHEN WAGE INFLATION SOARED. IT IS DIFFICULT TO
ACCEPT BOOTH'S CONFIDENCE THAT IF THERE IS NO AGREEMENT

WITH THE UNIONS, THEY WILL PRACTICE VOLUNTARY WAGE RESTRAINT. IT IS OBVIOUS, OF COURSE, THAT AFTER TWO YEARS OF RATHER RIGID PAY DEALS, WAGE PRESSURES INCLUDING THOSE RESULTING FROM THE COMPRESSION OF DIFFERENTIALS AND THE DECLINE IN REAL INCOMES WHICH THE EMBASSY HAS FREQUENTLY DESCRIBED, CANNOT BE IGNORED. HOWEVER, EVEN A LOOSE WAGE AGREEMENT MUST HAVE SOME REASONABLY EFFECTIVE MECHANISM TO ENFORCE IT AND TO PROVIDE PARAMETERS. IF EVANS' SUGGESTION OF AN "UNDERSTANDING" FORESHADOWS THE KIND OF ARRANGEMENT WHICH WILL EVENTUALLY EMERGE IN TUC/GOVERNMENT TALKS, THERE IS A DANGER, DESPITE BOOTH'S OPTIMISM, THAT 1977-78 WILL BEAR A RESEMBLANCE TO 1974-5. BOOTH, A FORMER OFFICIAL OF THE ENGINEERS' UNION, MAY BE REFLECTING A UNION GROUNDSWELL FOR A RETURN TO FREE COLLECTIVE BARGAINING OR AN ARRANGEMENT WITH THE LOOSEST OF STRINGS AND BE PREPARING FOR A "WORST CASE" SITUATION. EVANS, WITH HIS EAR EVEN CLOSER TO UNION GROUND -- AT LEAST HIS OWN UNION'S LARGEST SECTION OF TURF -- MAY BE DESCRIBING THE MAXIMUM ARRANGEMENT THE GOVERNMENT MIGHT EXPECT. BUT THE OLYMPIAN BARGAINING IS BY NO MEANS OVER, AND HARD BARGAINERS LIKE PRIME MINISTER CALLAGHAN AND CHANCELLOR HEALY MAY HAVE A WORD OR TWO TO SAY BEFORE THE SUMMER IS OVER ON THIS CRITICAL QUESTION WHICH, DESPITE BOOTH'S EXPRESSED CONFIDENCE, COULD HASTEN AN EARLY ELECTION. HEALY HAS PULLED RABBITS OUT OF THE HAT BEFORE. CAN HE DO SO AGAIN?

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Message Attributes

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Disposition Approved on Date:
Disposition Case Number: n/a
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